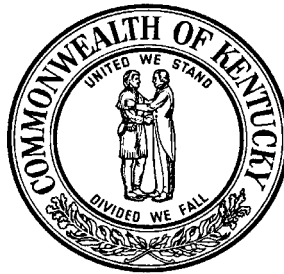


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS  
JUSTICE CABINET OFFICE OF THE SECRETARY**

**In Reference to the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Stephen B. Pence, Lieutenant Governor  
Justice Cabinet, Office of the Secretary

**MANAGEMENT LETTER**

Pursuant to KRS 43.090 (1), which states, "[i]mmediately upon completion of each audit and investigation, except those provided for in KRS 43.070, the Auditor shall prepare a report of his findings and recommendations," we are providing this letter to the Justice Cabinet Office of the Secretary to comply with KRS 43.090.

This letter presents the results of the work performed at the Justice Cabinet Office of the Secretary as part of our annual Statewide Single Audit of the Commonwealth of Kentucky.

In planning and performing our audit over compliance with requirements applicable to major federal programs for the year ended June 30, 2003, we considered the Justice Cabinet Office of the Secretary's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on compliance with requirements applicable to each major federal program and to report on internal control over compliance in accordance with Office of Management and Budget (OMB) Circular A-133 and on the Schedule of Expenditure of Federal Awards (SEFA).

We noted certain instances of noncompliance with requirements applicable to major federal programs we considered to be reportable under standards established by OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Justice Cabinet Office of the Secretary's ability to administer a major federal program in accordance with the applicable requirements of OMB Circular A-133.



Stephen B. Pence, Lieutenant Governor  
Justice Cabinet, Office of the Secretary

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions.

In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

As part of our audit of the Commonwealth's basic financial statements, we also performed tests of the Justice Cabinet Office of the Secretary's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The results of those tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings and Recommendations (Federal Noncompliance and Reportable Conditions)
- ◆ Summary Schedule of Prior Year Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains the Justice Cabinet Office of the Secretary's findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at [www.kyauditor.net](http://www.kyauditor.net).

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

**LIST OF ABBREVIATIONS/ACRONYMS**

APA	Auditor of Public Accounts
CAP	Cost Allocation Plan
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
FY	Fiscal Year
GMB	Grants Management Branch
IDCRP	Indirect Cost Rate Proposal
JUST	Justice Cabinet Office of the Secretary
KRS	Kentucky Revised Statutes
MARS	Management Administrative Reporting System
OMB	Office of Management and Budget
SF	Short Form
US	United States
VAWA	Violence Against Women Formula Grants
VOCA	Crime Victim Assistance Grant

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**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2003**

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
JUSTICE CABINET				
<u>U.S. Department of Justice</u>				
Direct Programs:				
16.550	State Justice Statistics Program for Statsitical Analysis Centers	75,002		
16.554	National Criminal History Improvement Program (Note 3)	-		
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	13,800		
16.575	Crime Victim Assistance	4,773,634		4,648,826
16.579	Byrne Formula Grant Program	4,100,446		4,031,874
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	1,185,963		
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16,075		
16.588	Violence Against Women Formula Grants	1,528,921		1,450,395
16.589	Rural Domestic Violece and Child Victimization Enforcement Grant Program	139,065		139,065
16.592	Local Law Enforcement Block Grants Program	411,412		371,949
16.593	Residential Substance Abuse Treatment for State Prisoners (Note 3)	-		
16.607	Bulletproof Vest Partnership Program (Note 3)	-		
16.710	Public Safety Partnership and Community Policing Grants (Note 3)	-		
TOTAL JUSTICE CABINET OFFICE OF THE SECRETARY		\$ 12,244,318		\$ 10,642,109

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies**

**Basis of Presentation** - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for the Commonwealth, except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of Kentucky Revised Statute (KRS) 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs are not reported in the basic financial statements of the Commonwealth for FY 03. The noncash expenditures, where applicable, presented on this schedule represent the noncash assistance expended using the method or basis of valuation described in Note 3.

**Inter-Agency Activity** - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

State agencies that pass federal funds to state universities report those amounts as expenditures.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)**

**Inter-Agency Activity (Continued)**

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

**Note 2 - Type A Programs**

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$18 million for FY 03.

The Justice Cabinet Office of the Secretary had no programs that met the Type A program definition for the year ended June 30, 2003.

**Note 3 - Zero Expenditure Programs**

These programs had no expenditures related to the respective state organization during FY 03. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-JUST-1: The Justice Cabinet Should Either Develop An Indirect Cost Allocation Plan And Submit It To The Cognizant Federal Agency For Approval Or Stop Charging Indirect Costs To The Federal Government**

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State Organization: Justice Cabinet - Office of the Secretary

Federal Program: CFDA 16.575-Crime Victim Assistance

CFDA 16.579-Byrne Formula Grant Program

CFDA 16.588-Violence Against Women Formula Grants

Federal Agency: U.S. Department of Justice

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: \$46,774

Indirect costs are those costs that benefit common activities and, therefore, cannot be readily assigned to a specific direct cost objective or project. As we noted during the FY 02 audit, although the Justice Cabinet Office of the Secretary Grants Management Branch (GMB) does not have an approved indirect cost plan in place for charging indirect costs to federal grants, indirect costs are included as part of the administrative costs for the agency. In Management's Response to the FY 02 audit finding concerning indirect costs, the GMB stated:

*As recommended, the Justice Cabinet, Office of the Secretary will obtain the necessary information to formulate an indirect cost plan. Once formulated, the plan will be submitted to our federal cognizant agency for approval. The GMB will provide assistance to the Division of Administration as needed. The Justice Cabinet, Office of the Secretary will notify the APA if any problems are encountered.*

As of the date of this comment for the FY 03 audit, no action has been taken to correct this deficiency.

Charging indirect costs to federal grants without an approved, indirect cost plan in place is not in compliance with OMB Circular A-133, Compliance Supplement Part 3 - Compliance Requirements, Section B. Allowable Costs/Cost Principles, which states, "In order to recover indirect costs, organizations must prepare cost allocation plans (CAPs) which apply only to state, local and Indian tribal governments or indirect cost rate proposals (IDCRPs) in accordance with the guidelines provided in OMB's Circulars."

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-JUST-1: The Justice Cabinet Should Either Develop An Indirect Cost Allocation Plan And Submit It To The Cognizant Federal Agency For Approval Or Stop Charging Indirect Costs To The Federal Government (Continued)**

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According to the U.S. Department of Justice Financial Guide, Chapter 17, Indirect Costs,

In order to be reimbursed for indirect costs, a recipient must first establish an appropriate indirect cost rate. To do this, the recipient must prepare an indirect cost rate proposal and submit it to the cognizant Federal agency . . . . If an indirect cost proposal for recovery of actual indirect costs is not submitted to the cognizant Federal agency within three months of the start of the award period, indirect costs will be irrevocably lost for all months prior to the month that the indirect cost proposal is received. This policy is effective for all awards.

**Recommendation**

We recommend the GMB develop an appropriate indirect cost plan and submit it to the federal cognizant agency for approval.

Since the GMB does not currently have an approved indirect cost plan in place, we recommend that no further indirect costs be charged to these grants and that any indirect costs charged to the grants for FY 04 be reversed.

We are questioning approximately \$46,774 in costs charged to the three (3) grants included in this audit as improperly charged indirect costs for FY 03.

**Management's Response and Corrective Action Plan**

*The Justice and Public Safety Cabinet concurs with the need for an indirect cost plan and is now in the process of developing a draft for U.S. Department of Justice review. The Cabinet anticipates forwarding the draft by March 31, 2004. The Cabinet will seek direction from the U.S. Department of Justice, Office of the Comptroller, regarding FY 2003 and 2004 indirect costs incurred prior to the completion of the plan.*

## FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

### *Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance*

#### **FINDING 03-JUST-2: The Justice Cabinet Should Follow Established Subrecipient Monitoring Policies And Procedures To Ensure Subrecipient Monitoring Is Properly Performed And Documented**

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State Organization: Justice Cabinet - Office of the Secretary

Federal Program: CFDA 16.575-Crime Victim Assistance

CFDA 16.579-Byrne Formula Grant Program

CFDA 16.588-Violence Against Women Formula Grants

Federal Agency: U.S. Department of Justice

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

In the Crime Victim Assistance (VOCA) and Violence Against Women (VAWA) subrecipient files that we reviewed for the FY 03 audit, there were several instances of files without either financial or programmatic monitoring tools completed during the fiscal year. In addition, we noted quarterly subgrantee progress, financial reports, and closeout reports not submitted timely to GMB by subrecipients.

In the Byrne subrecipient files that we reviewed for FY 03, there were some financial reports received several months past the due date, causing payments to be delayed for these entities. We also noted very few site visits documented. Two (2) of the subrecipients had not yet submitted final reports for the grant.

Without adequate documentation in the subrecipient files, it is not possible to determine what monitoring activities are performed or how often they are performed.

During FY 03, sufficient monitoring activities were not being performed and/or documented to ensure subrecipients were using federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals were achieved. Subrecipients could be in noncompliance with federal requirements and grant funds could be spent erroneously when monitoring is not performed adequately or timely.

According to OMB Circular A-133, Subpart D (d) Pass-through entity responsibilities,

A pass-through entity shall perform the following for the federal awards it makes: . . .

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-JUST-2: The Justice Cabinet Should Follow Established Subrecipient Monitoring Policies And Procedures To Ensure Subrecipient Monitoring Is Properly Performed And Documented (Continued)**

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Policies and procedures for subrecipient monitoring should be in place and followed to ensure subrecipients are spending federal grant funds in compliance with their grant agreement, as well as federal laws and regulations.

**Recommendation**

During FY 03, GMB developed a specific set of procedures to monitor subrecipient activity. The procedures are outlined in the GMB policies and procedures manual.

A monitoring schedule has been implemented to determine which subrecipients will receive desk, telephone, or site monitoring reviews. Various risk factors are used to determine the need for site visits to subrecipients. The site monitoring schedule showed a listing of all subrecipients and the dates for the financial and programmatic visits. By viewing this schedule, it is easy to see where GMB has made site visits and where there is still a need.

We reviewed several subrecipient files that had site visits documented during FY 04. We noted that in these files there was sufficient documentation of both financial and programmatic site visits. These files contained updated applications and evidence of a review of supporting financial data submitted by subrecipients.

We recommend the GMB continue to implement policies and procedures to ensure subrecipient monitoring activities are being performed consistently and on a regular basis. We further recommend that documentation of these activities be filed in the subrecipient files when performed. We believe the addition of personnel to the GMB has greatly improved the monitoring of subrecipients and will help the GMB comply with federal monitoring requirements in the future. We recommend that this commitment of additional personnel to the improvement of grant compliance activities be continued so that all federal grant compliance requirements can be met.

**Management's Response and Corrective Action Plan**

*The Justice and Public Safety Cabinet concurs with the finding and recommendation, and will continue to implement the corrections already instituted and noted above.*

## **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance***

#### **FINDING 03-JUST-3: The Justice Cabinet Should Continue To Develop Procedures To Ensure Subrecipients That Expend More Than \$300,000 In Federal Awards In A 12-Month Period Receive An OMB Circular A-133 Audit**

State Organization: Justice Cabinet - Office of the Secretary

Federal Program: CFDA 16.575-Crime Victim Assistance

CFDA 16.579-Byrne Formula Grant Program

CFDA 16.588-Violence Against Women Formula Grants

Federal Agency: U.S. Department of Justice

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

For the subrecipient files reviewed during the FY 03 audit, we noted that the GMB did not perform sufficient subrecipient monitoring activities to ensure subrecipients expending more than \$300,000 in Federal awards receive OMB Circular A-133 audits.

We also noted for those subrecipients that had audits on file at the GMB, there were some that did not have documentation of a desk review performed on the audit or record of follow up on audit findings.

During FY 03, the GMB was not in compliance with OMB Circular A-133, Compliance Supplement Part 3 - Compliance Requirements, Section M. Subrecipient Monitoring, by not requiring all subrecipients that expend more than \$300,000 in federal awards to provide current audits to the GMB and not performing desk reviews of audits or following up on audit findings.

According to the Code of Federal Regulations, Chapter 2 (28 CFR 66.26), (a) "Grantees and subgrantees are responsible for obtaining audits in accordance with the Single Audit Act Amendments of 1996 and revised OMB Circular A-133."

According to OMB Circular A-133, Subpart D (d) Pass-through entity responsibilities.

A pass-through entity shall perform the following for the federal awards it makes: . . .

- (2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirement imposed by the pass-through entity.



**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-JUST-3: The Justice Cabinet Should Continue To Develop Procedures To Ensure Subrecipients That Expend More Than \$300,000 In Federal Awards In A 12-Month Period Receive An OMB Circular A-133 Audit (Continued)**

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- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
- (5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
- (6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

**Recommendation**

During FY 04, GMB has implemented an audit-tracking schedule designed to determine which subrecipients are required to have an OMB Circular A-133 audit and document whether the audit has been received.

We recommend GMB continue to develop procedures to ensure subrecipients that expend more than \$300,000 in Federal awards in a 12-month period receive an OMB Circular A-133 audit. We further recommend that GMB review the audits and follow up on audit findings within six (6) months after receipt of the audit. The audit desk review and follow-up of audit findings should be properly documented in the subrecipient's file.

**Management's Response and Corrective Action Plan**

*The Justice and Public Safety Cabinet concurs with the finding and recommendation, and will continue to implement the corrections already instituted and noted above.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-JUST-4: The Justice Cabinet Should Ensure Information On The  
Quarterly Financial Status Reports Is Reliable**

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State Organization: Justice Cabinet - Office of the Secretary

Federal Program: CFDA 16.575-Crime Victim Assistance

CFDA 16.579-Byrne Formula Grant Program

CFDA 16.588-Violence Against Women Formula Grants

Federal Agency: U.S. Department of Justice

Pass-Through Agency: Not Applicable

Compliance Area: Reporting

Amount of Questioned Costs: None

We reviewed the June 30, 2003 quarterly SF 269A Financial Status Reports submitted by the GMB to determine if they were supported by sufficient, accurate documentation.

We noted that amounts on the reports we reviewed were not adequately supported by MARS documentation. The supporting documentation used by the agency was the internal spreadsheet that tracks expenditures of the subrecipients' federal share and local match, known as the "cashbook." The cashbook was not reconciled to MARS.

Since the SF 269A reports contain the actual expenditures and unliquidated obligations as incurred for both the reporting period and, cumulative for the award period, it is important that the amounts on the report be supported in the agency's accounting records.

Since the reports are providing cumulative information, incorrect accounting information could affect numerous reporting periods.

According to the U.S. Department of Justice Financial Guide, Chapter 11: Reporting Requirements, "Grantees are also required to maintain adequate documentation to provide an audit trail that substantiates the amounts reported on each SF 269A as submitted."

**Recommendation**

GMB personnel informed us that they were no longer using the cashbook for FY 04. Instead, they post local match and program income data to a report when a financial report is entered into MARS. Since the local match and program income information from the financial reports is not currently entered into MARS, this report, called the status report provides supplemental information for the SF 269A. The federal expenditure portion of the status report is reconciled monthly to MARS. We reviewed SF 269A reports for the December 31, 2003 quarter and found the information on the report traces to the supporting documentation. We feel the SF 269A reports prepared using the MARS report and the status report are accurate and meet federal reporting requirements.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance***

**FINDING 03-JUST-4: The Justice Cabinet Should Ensure Information On The  
Quarterly Financial Status Reports Is Reliable (Continued)**

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**Recommendation (Continued)**

We recommend the GMB continue to use the improved reports and continue the monthly reconciliation with MARS. We recommend the GMB try to improve the internally generated status report to accurately reflect the quarter's expenditures as well as cumulative expenditures for the local governments federal share and local match.

**Management's Response and Corrective Action Plan**

*The Justice and Public Safety Cabinet concurs with the finding and recommendation, and will continue to implement the corrections already instituted and noted above.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-JUST-5: The Justice Cabinet Should Implement Its Corrective Action Plan For Weaknesses Noted In Prior Year Regarding Indirect Costs**

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State Organization: Justice Cabinet - Office of the Secretary

Federal Program: CFDA 16.575-Crime Victim Assistance

CFDA 16.579-Byrne Formula Grant Program

CFDA 16.588-Violence Against Women Formula Grants

Federal Agency: U.S. Department of Justice

Pass-Through Agency: Not Applicable

Compliance Area: Allowable Costs/Cost Principles

Amount of Questioned Costs: None

The Justice Cabinet Office of the Secretary GMB has not implemented its corrective action plan for indirect costs; therefore, materially misrepresenting the FY 2002 corrective action plan. The GMB did not develop and implement an Indirect Cost Allocation Plan for charging indirect costs to various federal grants.

Failing to implement the corrective action plan stated in the FY 02 audit finding results in the agency still not complying with OMB Circular A-133, Compliance Supplement Part 3 - Compliance Requirements, Section B. Allowable Costs/Cost Principles. Therefore, the GMB is continuing to charge indirect costs to federal grants without an approved indirect cost plan in place.

OMB Circular A-133 Part A, Subpart E\_\_\_.500 states:

Audit follow-up. The auditor shall follow-up on prior audit findings, perform procedures to assess the reasonableness of the summary schedule of prior audit findings prepared by the auditee in accordance with §\_\_\_.315(b), and report, as a current year audit finding, when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding. The auditor shall perform audit follow-up procedures regardless of whether a prior audit finding relates to a major program in the current year.

**Recommendation**

We recommend GMB implement its corrective action plan previously submitted to auditors. GMB should ensure an Indirect Cost Allocation Plan be established and submitted to the federal cognizant agency for approval. The GMB should then apply the plan when charging all indirect costs to federal grants.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 03-JUST-5: The Justice Cabinet Should Implement Its Corrective Action Plan For Weaknesses Noted In Prior Year Regarding Indirect Costs (Continued)****Management's Response and Corrective Action Plan**

*Although the Justice and Public Safety Cabinet agrees with the need for an indirect cost plan, it disagrees with the implication that there was a "material misrepresentation" made to the Office of the Auditor of Public Accounts or its staff. The FY 2002 audit finding directing the Cabinet to complete an Indirect Cost Allocation Plan was received in draft form in February 2003. Shortly after that date, the task was assigned to the Cabinet's Division of Administration, and research into the process was begun. This was communicated to the Office of the Auditor of Public Accounts by memo from the Secretary of the Justice Cabinet, March 3, 2003. Progress on this task was interrupted by the retirement of the manager of the Grants Management Branch in July 2003 and a delay in replacing the Cabinet's Budget Director, who had resigned in January 2003. These positions were not re-filled until October 2003 and July 2003, respectively. When the new Grants Management Branch manager was hired, she assumed responsibility for this task and has been in communication with the U.S. Department of Justice regarding development and submission. A draft plan is now scheduled for submission to the U.S. Department of Justice by March 31, 2004.*

**Auditor's Reply**

While we acknowledge that the GMB has recently started developing an indirect cost plan, there was no evidence found during the audit that any work on an indirect cost plan had been done during FY 03.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2003**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
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*(1) Audit findings that have been fully corrected:*

There were no findings for this section.

**Reportable Conditions**

*(2) Audit findings not corrected or partially corrected:*

FY 02	02-JUST-1	The Justice Cabinet Should Develop An Indirect Cost Plan And Submit It To The Cognizant Federal Agency For Approval	16.575 16.579 16.588	0	See 03-JUST-1 and 03-JUST-5.
FY 02	02-JUST-2	The Justice Cabinet Should Develop Written Subrecipient Monitoring Policies And Procedures To Ensure Subrecipient Monitoring Is Properly Performed And Documented	16.575 16.579 16.588	0	Subrecipient monitoring procedures included in updated policies and procedures manual during FY 03.  See 03-JUST-2.
FY 02	02-JUST-3	The Justice Cabinet Should Perform Sufficient Subrecipient Monitoring Activities To Ensure Subrecipients Expending More Than \$300,000 In Federal Awards Receive OMB Circular A-133 Audits	16.575 16.579 16.588	0	See 03-JUST-3.
FY 02	02-JUST-4	The Justice Cabinet Should Prepare Quarterly Financial Status Reports That Are Supported By Adequate Documentation	16.575 16.579 16.588	0	See 03-JUST-4.

*(3) Corrective action taken is significantly different from corrective action previously reported:*

There were no findings for this section.

*(4) Audit finding is no longer valid or does not warrant further action:*

There were no findings for this section.

